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## Credit Card Smarts

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## Credit Card Smarts

by Nancy Carr

**Lifesaver?** Or bane of a student's financial existence? A credit card may be as easy to get as a part-time job at a fast-food joint, but young people should closely watch their plastic spending or risk working eons of overtime getting out of debt, say experts.

"I believe kids need to be introduced to the whole concept of credit early, and they need to understand that when you use someone else's money it costs you," said Gail Vaz-Oxlade, Toronto author of *A Woman of Independent Means*.

However, Vaz-Oxlade is against the current practice of credit-card issuers aggressively targeting students across North America, offering freebie giveaways with credit-card applications.

"They're hoping to hook these kids early and build their loyalty and have them remain customers for the long term. The fact is that these kids don't yet have the skills to use a credit card in an effective way and they don't have the resources to pay it back."

That said, Vaz-Oxlade isn't totally opposed to young people holding credit cards, so long as the limit is low and a parent co-signs.

"With a \$500 limit just about anybody could learn to manage their money," Vaz-Oxlade said, pointing out that a student working part-time could pay off their credit limit in a matter of weeks.

But while a card is great for emergencies and making purchases over the telephone or the Internet, it can lead to financial disaster--especially when coupled with student-loan debt.

And some students are perfectly aware of that.

"I don't have a credit card and I don't want one," says Jacob Clark, 20, a student at Ryerson University in Toronto. "I don't want to put myself in a situation where I'm going to spend money I don't have. I've known too many people in debt."

Jeanine Ching, also 20 and a Ryerson student, says a credit card would spell trouble for her. "I kind of want one for emergency situations but I know it would go beyond emergency situations, so it's better that I don't get one," Ching says. Ching uses her debit card for now, because it's accepted almost everywhere these days, and will build up her credit later on, when she needs to make

significant purchases.

Students are especially likely to mismanage their credit because they're new to dealing with their **finances**, said Carl Ritchie, senior vice-president at Mandelbaum Spergel Inc., a bankruptcy trustee firm.

"In many ways...they don't know right from wrong," Ritchie said. If young people haven't learned budgeting skills at school or at home, "they're a fish out of water, so to speak."

It starts quite innocently, said Joyce Brown, co-ordinator of counselling services at consulting and accounting firm BDO Dunwoody in Hamilton. Students start by using credit cards to pay for dinner or tickets to a movie or a concert.

But when the bill comes, young people often choose to pay only the minimum, carrying the balance over to the next month. That's where the trouble begins, as credit cards usually come with a hefty interest charge, anywhere from 10 to 25 per cent.

That means, a stereo bought for \$499 on a credit card with an interest rate of 10 per cent would end up costing \$511.48 if the bill isn't paid for three months. After a year, the stereo's real cost would be \$548.90.

"As soon as you carry a balance, a warning flag should go up that there's something wrong with your budgeting scheme," Brown said.

"Credit cards sneak up on you."

Krystal Phirtieraj, 20, a second-year Ryerson student, saw that happen to her brother, and is determined to make sure she handles her credit card better. She said she pays her bills in full, right away, even when she makes big purchases, such as her university tuition.

One of the easiest ways to get into a financial crisis is by having too many credit cards--department store cards, gas station cards and regular bank-issued cards.

If you regularly take cash advances, can't make even your minimum monthly payments on your credit cards or aren't really sure how much you owe, you are probably in over your head.

The Canadian Bankers Association recommends that if you find yourself in one of these situations, put away your cards immediately and contact the card issuer to work out a payment plan.

An experienced counsellor at a not-for-profit credit counselling agency can also give advice, help develop a course of action and create a budget.

So how do students avoid these pitfalls when planning **finances** for the next school year with a credit card in mind?

"Shop around," Brown advised.

"Check out to see who is offering the best interest rate. Find out what the grace period is between borrowing money and having to pay the money back."

And when it doubt, go back to good old-fashioned cash.

# The Essential Dirt on Credit Cards

## Who can get one?

Without an adult co-signer, card holders must be over 18.

## What's the cost?

Cards usually charge an annual fee that can vary widely, so comparison shop. The same goes for the interest rate charged: rates vary from 10% on student cards issued by banks to 25% on department store cards. If you don't pay the balance off in full, interest is charged from the day you made the purchase, not the day you received the bill.

## How much must I pay?

At least 5% of your balance every month.

## What if I don't pay?

Your credit record follows you around for seven years and a bad history can make your financial life very difficult.

## Credit Card Statement

- If you pay the full New Balance, interest will not be charged.
- If you pay only the Minimum Payment, you will be charged the annual equivalent of 17% interest for 27 days for the computer purchase of \$2,000, and 17% for the 17 days for the book purchases of \$1,000. This adds up to \$23.73 for January and \$39 for February for a total of \$62.73 in interest charges on your February statement. This means your February statement is going to be bigger than your January statement, even if you pay \$50 and don't make any other purchases!

**If you don't pay the \$3,000, in a year, the interest would be roughly \$510, increasing the purchase price by 15%.**

**If you use a department store card at 28%, the interest would be a whopping \$840—almost a 30% increase from the purchase price.**

## Online

Want to learn more? Check out these Internet sites: There's Something About Money, a Web site maintained by the Canadian Bankers Association.  
[www.yourmoney.cba.ca](http://www.yourmoney.cba.ca)

Money Savvy 101, maintained by Industry Canada, offers advice on using credit cards and debit cards, under Lesson 1, Making Cents.  
<http://mmprodnt.ic.gc.ca/mmpub/consumeraffairs/english>

